

# NNewsline

*Delivering Technology Access to  
America's Communities*



**2003 Issue 3**



U.S. Department of Housing and  
Urban Development

Office of Multifamily Housing  
Programs

[www.NeighborhoodNetworks.org](http://www.NeighborhoodNetworks.org)



## Lack of Financial Knowledge Rampant

*Collaborative efforts to increase awareness of and access to information that promotes financial literacy are increasingly seen as necessary to ensure that consumers can meet their immediate obligations as well as achieve their broader goals of buying a home, funding higher education for themselves or their children, and preparing for retirement.*

—Alan Greenspan, chairman of the  
Federal Reserve Board, April 6, 2001

Society places great importance on attaining functional literacy, and it should—it is vital to being self-sufficient, employable individuals. However, just as being functionally literate is important for navigating successfully in today's world, basic money management skills are needed to secure one's financial future.

According to the Jump\$tart Coalition for Personal Financial Literacy, the average student who graduates from high school lacks basic skills in the management of personal financial affairs. Many are unable to balance a checkbook, and most simply have no insight into the basic survival principles of earning, spending, saving, and investing. The heart of this problem lies not in the school system but in the fact that children do not learn money management skills

from their parents. Adults avoid talking to their children about subjects such as budgeting and saving partly because of their failure to practice what they preach.

Americans, particularly those in underserved populations, need to better understand and apply sound money management practices if they are to secure their financial future and lead more productive, fulfilling lives.

## Defining Financial Literacy

But what is financial literacy and why is there a need for it? Financial literacy involves knowing and understanding the often complex principles of earning, spending, saving, and investing. It is the basis for

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using credit and money responsibly and for making informed financial decisions, which can affect families and their future. Financial literacy provides the foundation for saving and investing wisely and gives people personal control over their money and other financial resources.

Having a job and earning a paycheck are important steps toward financial well-being and independence from government assistance. Yet earning income consistently is not the same as being able to make informed, responsible decisions about what to do with that income. This is where the financial competence of individuals is tested. Unfortunately, most individuals, particularly youth, fail because a lack of basic money management skills is widespread. The unfortunate results are skyrocketing consumer debt, low savings rates, lost job opportunities, bankruptcy, and a perpetual cycle of poverty.

Moreover, the most fundamental reason that people should strive to become more financially literate is to reach their financial goals and to improve their standard of living and sense of confidence about the future. Financially literate people are more likely to engage in sound financial planning, even casually, early in life. This enables them to plan for retirement, fund their children's educations, and accumulate more assets.

## NNewsline

**NNewsline** is published quarterly by the U.S. Department of Housing and Urban Development (HUD) Office of Multifamily Housing Programs. It is distributed to HUD field offices and Neighborhood Networks centers and is made available to the public. For additional copies, please call the Neighborhood Networks Information Center toll-free at (888) 312-2743, TTY: (800) 483-2209, or visit the Neighborhood Networks Web site at [www.NeighborhoodNetworks.org](http://www.NeighborhoodNetworks.org).

## The Hard Facts

The following national statistics illustrate the need for everyone to improve his or her money management practices:<sup>1</sup>

- ◆ According to the U.S. Department of Commerce, from 1992 to 2000, disposable income rose 47 percent, but consumer spending climbed 61 percent. At the same time, the overall consumer savings rate fell from 8.7 percent of disposable income in 1992 to zero in 2000.
- ◆ The average American household with at least one credit card carried a balance of \$7,942 in 2000, compared with an average balance of \$2,985 in 1990.
- ◆ Of those Americans who say they are saving for retirement, less than half have actually taken time to calculate how much money they will need to live comfortably.<sup>2</sup>
- ◆ Sixty-two percent of women responding to a survey did not know the correct age at which they would be eligible for full Social Security benefits.
- ◆ Today's high school seniors failed when surveyed about their basic knowledge of personal finance, and they knew even less than their counterparts did 3 years ago.
- ◆ The U.S. military, in response to surveys indicating that nearly one-third of enlisted service members reported moderate to severe difficulty in paying bills, has mandated that all incoming enlisted personnel receive financial education as a means of reducing stress related to personal finance. ◆

<sup>1</sup> Except as indicated, all data are taken from National Endowment for Financial Education, "The Need for Financial Literacy Education," <http://nefe.nclweb.org/#theneed> (2001).

<sup>2</sup> Employee Benefit Research Institute, *2001 Retirement Confidence Survey Summary of Findings* (Washington, DC, 2001).

# Money Matters: How to Successfully Spend and Save Your Money

**F**ew Americans receive training in personal money management. The result is a nation plagued by financial illiteracy that impairs individuals, families, neighborhoods, and entire communities. That is why financial planning is so important. It involves cultivating skills such as establishing financial goals, budgeting, saving, investing, building good credit, accessing community resources, and protecting against financial loss.

## Establish Financial Goals

Establishing financial goals is the most critical part of the financial planning process. You should begin by establishing clearly defined short- and long-term goals. These can range from reducing credit card debt and saving for a vacation or a new car to funding college education and saving for retirement. Be realistic and estimate the cost of each goal. Vague, unrealistic goals result in procrastination, frustration, inactivity, and ultimately failure. For example, initially it may be impossible to save \$100 a month, so why not try for \$10 or \$25?

Prioritize your goals by importance and set a time line to achieve them. Always consider what you may have to sacrifice in the process. Keep your goals firmly in mind and reevaluate them regularly. This will keep your financial plan in touch with your needs. In addition, be flexible. Plans may require adjustments as your income and lifestyle change. Do not be so rigid that you have to start over with an entirely new plan. For example, you may incur an unexpected expense and cannot save the entire amount previously allotted. Just routinely set aside something toward your goal no matter how little it might be.

## Develop a Spending Plan

Do you dip into savings to pay current bills? Pay only the minimum amount due each month on charge accounts? Delay payment of some bills you normally would pay on time? Borrow to pay for items you used

to buy with cash? Take out new loans to pay old ones or to get lower monthly payments? Are you unclear about where your money goes? If so, you are on the brink of financial problems. You need to develop a spending plan. You need a budget.

A budget is a plan for spending and saving your money. Most people do not budget properly because they are not taught to. Moreover, many shun the word budget because it is synonymous with self-deprivation. However, creating and maintaining a budget means having money for the things you want. When you are not tracking your expenses, your money seems to disappear, you don't know where your money goes, and sometimes you cannot afford things you would like to have. Conversely when you track your expenses, you feel more in control, save money each month, and avoid money problems. In addition, it is easier to pay your bills on time.

## Budget Basics

Income is the amount of money you make. Expenses are what you spend your money on. You have a balanced budget when your income is at least as much as your expenses. A spending plan, or budget, is designed to show the flow of household incomes and expenses. Following a spending plan designed especially for you ensures that you will have money to cover immediate needs and to invest in long-term goals. The best way to create a budget is to figure out how you spend your money now. Initially, the process is time consuming, but it is not difficult.

First, track all of your income and expenses. On one chart, record all your income, including sources like overtime, a part-time job, or an interest-bearing account. On another, record all your expenses, broken into the following categories: fixed expenses, such as rent, mortgage, and car payments; flexible expenses, which vary each month, including the telephone, cable, and electric bills; and discretionary expenses,

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such as gifts and recreation. Remember to include money that you save each month to help you meet your future goals. Compare the two lists, see where the gaps are, and adjust accordingly.

## Sound and Convenient Financial Practices—Open a Savings and a Checking Account

Opening a savings and a checking account is a safe, convenient, and affordable way to save and manage your money and credit. With a savings account, you keep your money in a bank or credit union and earn interest. The fee that either institution pays you for saving your money with them is called interest. The higher the interest rate, the more money you will earn. And the more money you deposit into your account, the more money you earn in interest. A checking account allows you to deposit your money in the same financial institutions, and you can write checks when you need to pay for something. Moreover, it helps you keep track of your money and pay your bills on time, and it is easier and cheaper than cashing your paycheck at a money store or purchasing a money order to pay a bill.

Before opening either account, shop around for a financial institution that meets your needs. Look for a bank or credit union that is close to your home or

work, is open during hours convenient for you, and charges low or no fees for a savings account. Employees at these institutions will explain the various types of checking and savings accounts available as well as how to manage those accounts.

## Investment Basics

An investment is a savings tool to help your money grow. When you invest your money, you make more money by earning interest on the amount you put away or by buying and selling items that increase in value. The higher the rate of return (how much extra money you earn) and the more you invest, the more your money will grow over time. Investing starts with a financial plan, so consult an investment professional for advice.

## A Matter of Credit

In order to establish good credit, you need a good credit history. But to have a good credit history, you need to establish good credit. In fact, you may already be building a credit history. For example, if you own a cellular phone or credit card, you have already begun to build your credit history. By paying your bills on time and responsibly handling creditors, you build positive references on your credit report. Many people damage their credit history by paying bills late or not at all. Do not be one of them. ♦

## Additional Resources on Financial Literacy

### *National Endowment for Financial Education (NEFE)*

NEFE is a nonprofit 501(c)(3) foundation dedicated to helping all Americans acquire the information and skills necessary to take control of their personal finances.

[www.nefe.org](http://www.nefe.org)

### *National Council on Economic Education (NCEE)*

NCEE is a nationwide network that promotes economic literacy with students and their teachers. Its mission is to help students develop the skills needed to think and choose responsibly as consumers, savers, investors, citizens, members of the workforce, and effective participants in a global economy.

[www.ncee.net](http://www.ncee.net)

### *Practical Money Skills for Life*

PracticalMoneySkills.com is a free Web site designed to help educators, parents, and students practice better money management for life.

[www.practicalmoneyskills.com](http://www.practicalmoneyskills.com)

### *Managingmymoney.com*

Created through a collaboration of the Community Action Partnership and the National Endowment for Financial Education (NEFE), this site is beneficial to individuals who want to create a better life for themselves.

[www.managingmymoney.com](http://www.managingmymoney.com)



## From Our Guest Columnist

**S**heppard Van Williams is an operations specialist in HUD's Office of Field Policy and Management. He works in Region III, which serves Delaware, the District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia.

**NN: Tell me about yourself and your job at HUD.**

**SVW:** I began my career with HUD in June 2000 in its Philadelphia regional office. I was a specialist in the workforce development, welfare-to-work, and crime and safety initiatives in public and federally assisted housing. Presently, I enjoy working with my colleagues and grant recipients to promote this agency's workforce development initiatives. Among my most cherished career highlights at HUD are the occasions where I've witnessed the fulfillment of Neighborhood Networks' mission and promise. This includes grand opening ceremonies, kickoff events for new community programs and services offered by the centers, and graduation ceremonies for completion of resident economic self-sufficiency training and empowerment programs.

It is gratifying to see resident and community organizations recognize the advantages of implementing strategic planning and community partnerships that increase the capacity of the Neighborhood Networks centers in delivery of services and programs.

**NN: How did you become involved in working with Neighborhood Networks?**

**SVW:** For several years, prior to working for HUD, I was an independent consultant to a variety of public and private nonprofits involved in community and economic development, welfare-to-work, and workforce development programs. When I started working for HUD, I became immediately involved in its workforce development initiatives, which included resident economic self-sufficiency programs such as Neighborhood Networks.



Sheppard Van Williams

**NN: What comes to mind when you hear the term "financial literacy"?**

**SVW:** Financial literacy means that an individual has a basic understanding of this nation's financial mainstream and uses one or more of the basic services offered by financial institutions. It begins with learning about the value of money and wages and how to budget, save, and invest for personal goals such as vacation, car, home, college or career school, and retirement. Financial education provides the knowledge and principles for developing and using sound, practical money management skills in daily living and is applicable to people of all socioeconomic levels. It is important that financial literacy be taught early in life and continued throughout formal education. In addition, it is never too late to begin learning good money management skills—even if you are an adult or senior citizen receiving public assistance or a fixed income. Nationally, financial industry statistics show that young adults, across all economic levels, lack financial literacy and amass huge credit card debt before resorting to bankruptcy. So financial literacy is the backbone to building a nation of responsible consumers and savers.

**NN: Based on your experience, do you believe financial literacy programs are important for center residents?**

**SVW:** Yes, I firmly believe that financial literacy programs are essential and should be one of the core programs incorporated into all aspects of potential center training programs and outreach initiatives—from employment and training to microenterprise development and support. Such programs are essential to

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helping low-income people develop important practical money management skills that will prepare them for gaining a better financial future through earnings, spending, borrowing, savings, and investing options. Having financial options is key to an individual's ability to plan a better future and move beyond the limitations of poverty or of being among the working poor. Developing sound and practical personal financial management skills can help low-income residents in federally assisted housing and communities—that are underserved by the financial mainstream—acquire better employment and housing options.

**NN: What do you believe are the steps involved in developing a financial literacy program?**

**SVW:** Training should be structured to help the residents who participate move toward achieving their financial goals. The program design should be reflective of the community audience that it is looking to serve. An ad hoc steering committee should be established for the preliminary outreach and planning process. The committee should include an owner's representative or property manager, resident leadership, community stakeholders, potential partners, and center staff. A preliminary assessment should be conducted on the center's capacity and feasibility for developing and implementing a financial literacy program—moreover, determine if there are existing financial literacy programs in the community or if a more advantageous arrangement can be brokered with community-based partners better equipped to deliver the program for residents. Availability of free or low-cost training materials, instructors, program administration, and evaluation, and other training supports should also be included in the preliminary assessment.

**NN: What advice would you give to centers that are considering starting a financial literacy program?**

**SVW:** Centers must recognize their strengths and weaknesses. They must develop partnerships and collaborations based on their strengths and that will offer

opportunities for a center to acquire services and programs that are outside the scope of its vision and operations plan. Involve residents and community stakeholders. Use instructors, training materials, and resources that are culturally and linguistically competent and are appropriate for the reading and comprehension level of the target audience. Build flexibility and creativity in the financial literacy training. Offer the program during hours that are convenient for the target audience. Have a classroom or facility environment that encourages and reinforces learning among different age levels. Have a facility that is accessible for residents with disabilities. Have suitable instructors who enjoy teaching. Implement a good outreach and marketing program for the training. Conduct entrance and exit assessments to identify participants' objectives, to document benchmarks, and to track participants' accomplishments over a defined period of time.

In addition, I encourage the use of the Federal Deposit Insurance Corporation's (FDIC's) Money Smart curriculum. It is free, user friendly, and comes in a 10-module set of course materials covering such subjects as banking, checking and savings accounts, investments, spending, and borrowing. It is available in hard copy and CD-ROM, in Chinese and Spanish. FDIC will release a Korean-language version later this year. Begin with the basics of financial literacy, and develop a sound program that can be sustained and expanded over time as demand and resources are available. Encourage participants to continue pursuit of financial education. Link the financial literacy program to other community supports that will offer continued financial education opportunities for the residents who complete the center's introductory financial literacy program. Also, become part of a local training association group that supports workforce development, welfare-to-work programs, and resource development. ♦

## All That Glitters . . . Avoiding Financial Pitfalls

**M**ake money in your spare time.” “Earn thousands per week!” “Guaranteed income!” If you live on planet Earth, chances are you have seen or heard such outrageous promises. They are everywhere—in the inbox of your e-mail account, in the classifieds of local newspapers, on a flyer at your local bus or subway station, or on the bulletin board of a local coffeehouse, university, or community center. Surely you have even received them in the mail or over the telephone. For some people, claims such as these are appealing. For others, they are suspicious, and rightly so. Excellent opportunities sell themselves. There should not be a need for pressure and promises of instant riches. Many of these claims prove to be scams, fraudulent schemes. They are promises designed to swindle unsuspecting individuals. Remember the old saying, “If it sounds too good to be true, it probably is.”

Although scam artists use a variety of tools to prey on individuals, the Internet has become a popular avenue for them. It allows them to spread their information with incredible speed to a large population, which makes it more attractive than traditional methods. Every day, the criminals behind the schemes develop creative ways to separate you from your money.

Many of these Internet scams are run by two methods: classified advertising and disguised advertising. Classified ads have the largest number of misleading promotions. Some ads may advocate such things as quick and easy weight loss, miracle cures, or unusual medical devices. Others promote investment schemes, business opportunities, or using your personal computer to make money in your spare time.

Disguised ads are more difficult to recognize. Many of them are found in online bulletin boards and chat forums. Chat forums, or chat rooms, are live discussion groups, which some advertisers use without

disclosing their true interests. These ads may appear to be part of an objective, open discussion.

Some basic ways to identify a scam and some tips to prevent yourself from being caught in one are described below.

**High pressure tactics.** “Sign up now or the price will increase” is a common tactic. Think things through. A legitimate deal probably is not going to move as fast as your money. Delete such information from your inbox, shred or dispose of the flyer, or end the telephone conversation.

**Prizes.** Promises of prizes and money almost always come with catches or are blatant lies. Beware of prizes where you have to pay something up front (including postage fees) to claim them.

**Requests for financial information.** The main reason anyone would need your credit card number is to process a purchase you are making. If so, ensure it is a reputable merchant and that the information is being encrypted. Some Internet sites claim to need credit card numbers as proof of age. This is not true, and credit card theft on the Internet using these tactics is skyrocketing. Do not give out your number unless you know to whom you are giving it.

**The word *free*.** Always view this word with caution and expect a catch, if not outright lying. Some Internet sites will offer you free access if you provide a credit card number as proof of age. Again, a credit card number is not proof of age. Offers such as these are not worth the risk.

For more information on other methods of fraud and signs to look for, visit the Federal Trade Commission’s Web site and choose the consumer protection link. ♦

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